

DATE: September 17, 2020

TO: Minnesota Housing Board Members

FROM: Jennifer Ho, Commissioner

SUBJECT: **FINANCE AND AUDIT COMMITTEE MEETING**

A meeting of the **Finance and Audit Committee** has been scheduled for **12:00 p.m. on Thursday, September 24** via Conference Call (info below).

The topics for discussion at this meeting are:

- A. Risk Management and Internal Control Framework
- B. Other Business (if any)
- C. Adjournment

This committee is a committee of the whole and all members are encouraged to attend.

If you have questions, please call Rachel Franco at (651) 296-2172.

Conference Call Information:

United States (Toll Free): [1 866 899 4679](tel:18668994679)

Access Code: 532-305-501

The Agency may conduct a meeting by telephone or other electronic means, provided the conditions of Minn. Stat. §462A.041 or Minn. Stat. 13D.021 are met. The Agency shall, to the extent practical, allow a person to monitor the meeting electronically and may require the person making a connection to pay for documented marginal costs that the Agency incurs as a result of the additional connection.

Item: Risk Management and Internal Control Framework

Staff Contact(s):

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Request Type:

- | | |
|-------------------------------------|------------------------------------------------------|
| <input type="checkbox"/> Approval | <input checked="" type="checkbox"/> No Action Needed |
| <input type="checkbox"/> Motion | <input checked="" type="checkbox"/> Discussion |
| <input type="checkbox"/> Resolution | <input type="checkbox"/> Information |

Summary of Request:

In July 2017, the Enterprise Risk Management (ERM) Framework was last updated by the Risk Management Committee. Staff would like to discuss with the Board a re-write of the Framework, including changing the document's name, to better reflect the Agency's current risk management and internal control strategies and activities.

Fiscal Impact:

None

Meeting Agency Priorities:

- ☐ Improve the Housing System
- ☐ Preserve and Create Housing Opportunities
- ☐ Make Homeownership More Accessible
- ☐ Support People Needing Services
- ☐ Strengthen Communities

Attachment(s):

- Risk Management and Internal Control Framework (DRAFT)



Risk Management and Internal Control Framework

(DRAFT approved by RMC 8-11-20)

Chapter 1 – Introduction and Overview

Minnesota Housing Risk Management and Internal Control Framework

Minnesota Housing (Agency) has adopted a formal Risk Management and Internal Control Framework (Framework) for managing its risks and internal controls. The Framework was established by the Agency's Board of Directors, Commissioner, and Risk Management Committee for the purpose of documenting how the Board and management will identify and respond to potential events (risks) that may impact achievement of the Agency's objectives and overall mission.

This Framework document establishes the Agency's Risk Management Policy (Chapter 2), emphasizes that managing risks and internal controls is an essential part of the management process, and outlines the Agency's key risk management and internal control strategies and processes designed to promote:

- Efficient and effective operations;
- Reliable reporting for internal and external use;
- Compliance with applicable laws and regulations;
- Safeguarding of assets, including protection of the Agency's reputation.

Terms and Definitions

Risk: The chance of something happening that may have a material impact on the Agency's achievement of its mission, Strategic Plan, Affordable Housing Plan, and other goals and objectives.

Risk Management: The Agency's coordinated activities to identify, analyze, evaluate, and respond to risks.

Internal Control: A process effected by the Minnesota Housing Board, management and staff that provides reasonable assurance that the objectives of the Agency will be achieved. Internal control comprises the plans, methods, policies, and procedures used to fulfill the Agency's mission, Strategic Plan, Affordable Housing Plan, and other goals and objectives.

Risk Responses: Possible responses to identified risks are listed below.

- Acceptance - No action is taken to respond to the risk.
- Avoidance - Action is taken to stop or modify the operational process or the part of the operational process causing the risk
- Reduction/mitigation – Internal control actions are taken to reduce the likelihood or magnitude of the risk
- Sharing - Action is taken to transfer or share risks across the entity or with external parties, such as insuring against losses

Principles of the Risk Management and Internal Control Framework

The Framework is based on the following key principles. Risk management and internal control is:

- The responsibility of all appointees, managers, employees and contractors
- Part of all organizational processes
- Part of decision making
- Explicit in addressing uncertainty

- Structured, timely and cost effective
- Based on the best available information
- Transparent and inclusive
- Responsive to change
- Based upon and modeled after the “Standards for Internal Control in the Federal Government” (also known as “The Green Book”)

Categories of Risk

The risks facing the Agency can result from both internally and externally driven factors. Within four broad categories the following list identifies the risks that may be relevant to the Agency (this list is not exhaustive or all-encompassing). Furthermore, certain of the risk categories intersect with each other:



Chapter 2 – Risk Management and Internal Control Policy

In support of its mission and objectives, Minnesota Housing is committed to, and places a high priority on managing its risks and internal controls strategically and systematically.

Risk management and internal control is an integral part of the Agency’s approach to decision making and accountability. Implementation begins with the Board of Directors and Commissioner, and is applied through all levels of the Agency. All Agency management and staff are required to integrate sound risk management and internal control procedures and practices into their daily activities.

Risk is a fundamental component in Agency activities and is managed to produce the best outcomes for the Agency over time. The intent of risk management is not to eliminate risk but

rather to assist Agency staff to manage the risks related to their responsibilities so that the Agency mission and objectives are achieved. Minnesota Housing's risk management and internal control program is managed by the Risk Management Committee (RMC) with day-to-day activities coordinated by the Chief Risk Officer (CRO) and other senior staff. The RMC, together with the Finance and Audit Committee of the Board, is authorized to implement all actions necessary to ensure the Agency maintains effective risk management and internal control systems.

This Framework adopts the United States Government Accountability Office, *Standards for Internal Control in the Federal Government*, also known as the *Green Book*, as the model and criteria the Agency will use to design, implement, and operate an effective risk management and internal control system. It serves as a companion to the Minnesota Management and Budget (MMB) Statewide Operating Policy 0102-01, *Internal Control System*.

Chapter 3 - Responsibilities for Agency Risk Management and Internal Control

Board of Directors

- Demonstrate a commitment to integrity and ethical values (i.e., provide strong “Tone at the Top”)
- Approve the Minnesota Housing Risk Management and Internal Control Framework
- Oversee management’s resource allocation and implementation and operation of the Agency’s risk management and internal control processes
- If necessary, sign the annual Internal Control System Certification for submission to Minnesota Management and Budget
- Periodically review the Agency’s compliance with the Risk Management and Internal Control Framework’s policy requirements
- Other functions, as necessary, and as outlined in Resolution No. MHFA 12-061: Resolution Establishing a Finance and Audit Committee (See Appendix 1)

Commissioner and Deputy Commissioner

- Demonstrate a commitment to integrity and ethical values (i.e., provide strong “Tone at the Top”) and require that management and staff do the same
- Establish an organizational structure, assign responsibility, and delegate authority to achieve the Agency’s objectives and mission
- Establish and maintain a culture of risk awareness and support for internal controls
- Chair the Risk Management Committee
- If necessary, sign the annual Internal Control System Certification for submission to MMB
- Provide managers and staff with support and training to effectively fulfill their risk management and internal control responsibilities

Risk Management Committee

The Risk Management Committee (RMC) meets periodically to address matters as needed. A

majority of the members must be present for the purpose of conducting RMC business. Consensus decision making is the goal for the RMC. The RMC is comprised of the following members:

- Commissioner - Chair
- Deputy Commissioner –Co-Chair
- Chief Risk Officer – RMC coordinator and meeting facilitator
- General Counsel
- Chief Information Officer
- Chief Financial Officer
- Assistant Commissioner – Single Family Division
- Assistant Commissioner – Multifamily Division
- Assistant Commissioner – Policy
- Director of Human Resources

RMC responsibilities include, but are not limited to:

- Develop the Agency Risk Management and Internal Control Framework, and update as needed
- Evaluate, prioritize and approve the Agency's risk management and internal control activities
- Complete the Agency Risk Profile, including review and approval the Agency Risk Profile report for presentation to the Board
- Complete the annual Internal Control System Certification; approve certification supporting documentation (i.e., Control Self-Assessment Tool, Risk Assessment Plan) for presentation to the Board Chair for review and execution of the certification form
- Provide input for and approval of risk assessment project scopes and strategies; review risk assessment project results; approve process improvement and corrective action measures, as applicable
- Periodically examine the Agency's risk tolerances (i.e., the amounts and types of risk the Agency is willing to pursue or retain)

Chief Risk Officer

In addition to the responsibilities related to the facilitation and coordination of the RMC, the CRO will also:

- Coordinate the annual Conflict of Interest Disclosure update; present results to the Board; collaborate with the Deputy Commissioner, as needed, to determine actions required by staff to mitigate conflict of interest risk, and/or to approve staff requests for outside secondary employment and/or outside board or other employment
- Manage the Navex Global EthicsPoint (third party vendor) reporting hotline
- Collaborate with the Legal Division to triage and investigate reports of fraud, misuse of funds, conflicts of interest or other concerns; provide periodic reports regarding the status of investigations to the RMC and the Board
- Collaborate with management and staff to complete risk assessment projects as scheduled in the Agency Risk Assessment Plan
- Collaborate with the Human Resources Division to ensure all new staff complete required risk management and ethics training within 60 days of starting at the Agency, and annually thereafter; ensure all managers and staff complete annual Code of Conduct training and

certification

- Collaborate with the Human Resources and Communications Divisions to develop and update as needed, risk management and internal controls-related training for Agency staff

Managers (including members of the RMC, as applicable)

- Demonstrate a commitment to integrity and ethical values
- Demonstrate a commitment to recruit, develop, and retain competent staff
- Evaluate staff performance and hold staff accountable for their risk management and internal control responsibilities
- Define clear and measurable objectives to enable the identification of risks to those objectives
- Identify, analyze and respond to risks relating to the achievement of defined objectives
- Consider the potential for fraud when identifying, analyzing and responding to risks
- Identify, analyze and respond to significant internal and external changes that could impact the risk management and internal control systems
- Design control activities to achieve objectives and respond to risks
- Design the information system and related control activities to achieve objectives and respond to risks
- Implement control activities through policies
- Make sure that information received from internal and external sources is reliable for decision making
- Communicate accurate and reliable information internally and externally as necessary to achieve Agency objectives
- Establish activities for monitoring and evaluating Agency risk management and internal control systems and processes
- Remediate identified risk management and internal control deficiencies on a timely basis
- Coordinate with the legal division to determine if risk management and internal control processes, practices and treatments are compliant with regulatory, statutory, program rule, program guide and policy requirements
- Alert member of Servant Leadership Team (SLT), direct supervisor, or CRO of significant risk or internal control concerns
- Attend Risk Management Committee meetings as required
- Attend risk management and internal control-related training sessions as required

Staff

- Demonstrate a commitment to integrity and ethical values
- Identify, analyze, evaluate and respond to risks impacting their job objectives
- Maintain an awareness of risks (current and potential) relating to their job and areas of responsibility
- Actively support and contribute to risk management and internal control initiatives
- Alert member of SLT, direct supervisor or CRO of significant risk and internal control concerns
- Attend risk management and internal control-related training sessions as required

Chapter 4 – Key Risk Management and Internal Control

Framework Components

- **Standards for Internal Control in the Federal Government** (also known as “The Green Book”):
 - This is the standard and criteria the Agency uses to model its risk management and internal control systems, pursuant to MMB Operating Procedure 0102-01, *Internal Control*.
 - The Green Book identifies five internal control components and 17 principles necessary for an effective risk management and internal control system.
- **Training:** Staff complete ethics, risk management and internal control-related training within 60 days of starting employment at the agency and annually thereafter. The training includes but is not limited to the following:
 - Risk management webinar (includes ethics, fraud prevention, conflict of interest, data practices, required disclosures)
 - Code of conduct webinar and certification
 - Prohibition of harassment and sexual harassment
 - Information security
- **Policies and procedures, including program guides:** Keep current policies and procedures pertaining to key duties, tasks and responsibilities.
- **Board Reporting:** The Agency holds monthly board meetings where the Servant Leadership Team and other staff provide information to the Board regarding all aspects of the Agency’s business, including, as necessary, matters relating to risk management and internal controls.
- **Agency Risk Profile:** A risk profile is the periodic identification, analysis and documentation of critical risk sources to an organization; risks that could impact the organization’s ability to achieve its stated objectives over a future time period. Specifically for Minnesota Housing, the Agency Risk Profile focuses on the critical risks confronting the Agency which could negatively impact the Agency’s ability to achieve the goals identified in the Minnesota Housing Strategic and Affordable Housing plan documents.
 - The primary purpose for completing the Agency Risk Profile is to assist the Commissioner and Risk Management Committee in communicating risk-related issues to the Board
 - The Agency Risk Profile is a self-assessment exercise completed by the RMC
 - The Agency Risk Profile is completed biennially, or more frequently as requested by the Board, with a formal report issued to the Board
- **Annual Financial Audit:** The Agency contracts with an independent audit firm to complete an annual financial audit. The scope of the audit includes:
 - Opinion on the accuracy and reliability of the Agency’s financial statements, including related footnotes and reasonableness of accounting estimates
 - Review of the Agency’s level of compliance with major federal program requirements (i.e., Single Audit)
 - Review of internal controls over financial reporting, information technology, Disaster Recovery and Continuity of Operations Plans, and other critical areas such as loans and allowance for loan loss, management override of controls, revenue recognition, interest rate swaps, and real estate owned valuation
 - Assessment of the Agency’s computerized information system controls and security

- **Annual MMB Internal Control System Certification:** Minnesota Housing annually certifies to MMB that the Agency's internal control systems are compliant with statute and MMB standards, pursuant to Minnesota Statutes 16A.057. The signed certification and supporting documentation is submitted to MMB on or before July 31 each year. There currently are three certification components completed each year:
 - Control Self-Assessment Tool (CSAT) – A structured way for the Agency to review and document the effectiveness of internal controls over selected processes common for all Minnesota state agencies. The CSAT lists 14 organizational goals, a series of requirements for each goal, and identifies the existing statutes, state laws, policies and procedures relating to those goals that agencies must follow
 - Risk Assessment Plan – Identifies the risk assessment projects the Agency will attempt to complete during the coming year. The RMC updates the Plan each year
 - Certification form signed by the Commissioner and Board Chair
- **Risk Assessment Projects:** The Chief Risk Officer will collaborate with management and staff to complete the risk assessment projects as scheduled in the Agency Risk Assessment Plan. Risk assessment projects will:
 - Document the agency business process under assessment
 - Identify the inherent risks related to the business process
 - Identify and document existing control activities within the business process
 - Identify and document internal control gaps and weaknesses within the business process
 - Report identified internal control gaps and weaknesses, and recommendations for correction to the RMC
 - Develop action plans to correct identified internal control gaps and weaknesses
- **Conflict of Interest Disclosure:**
 - Staff complete conflict of interest disclosure statements at time of new employee orientation and annually thereafter. Staff also request permission to accept external secondary employment and/or outside board or other memberships
 - The Chief Risk Officer and Legal Division review Annual Conflict of Interest Disclosure forms and requests for outside employment or membership prepared by staff and collaborates with the Deputy Commissioner, as applicable, to determine actions required by staff to mitigate conflict of interest risk, and/or to approve staff requests for outside secondary employment and/or outside membership
- **Fraud/Misuse of Funds/COI monitoring, investigation, and reporting:**
 - Multiple internal retaliation-free communication channels are available for staff and stakeholders to report wrongdoing or other concerns
 - External reporting hotline - The Agency contracts with a third party vendor to maintain a reporting hotline for staff and external parties to make reports of wrongdoing or other concerns. The hotline allows reporting individuals to remain anonymous
 - Procedures are in place to document, triage, investigate and resolve all reports of wrongdoing or other concerns
 - Chief Risk Officer provides semi-annual reports to the Board regarding the status of all applicable investigations
- **Credit Risk Management:** The Agency employs a Credit Risk Management team that:
 - Evaluates borrower and grantee financial capacities to complete and support proposed affordable housing projects and activities

- Provides information and analyses about credit risks and mitigation strategies to assist Agency decision makers to effectively manage loan and grant portfolio risks and enhance Agency financial strength
- **Review and Selection Committees:**
 - The Agency currently maintains two primary internal review committees, Mortgage Credit and Clearinghouse. Each committee meets regularly to consider a variety of matters related to multifamily affordable housing loans, grants and policies or procedures, and these meetings are attended by a broad cross section of Agency staff, with expertise in lending, underwriting, credit review, finance and accounting, legal and compliance. Other Agency matters requiring internal review that do not fit into the purview of Mortgage Credit or Clearinghouse are handled through alternate channels
 - Selection committees are designed and called to act for certain funding opportunities and cycles as required by the specific program intent and potential funding availability
- **Compliance:** Compliance impacts every part of the Agency. Minnesota Housing maintains compliance with state and federal rules and regulations through a wide variety of activities, including the following:
 - Minnesota Housing endeavors to maintain compliance with all applicable Agency policies and state or federal laws, rules and regulations. To do so, each of the Single- and Multi-Family divisions employ personnel to develop, implement, and monitor compliance practices and procedures within their divisions. Additionally, employees within the divisions coordinate with the policy, legal and finance teams as appropriate to update compliance practices and maintain consistency with applicable state and federal requirements.
 - The Minnesota Housing Employee Policies and Procedures Manual includes all of the state and federal human resources-related compliance requirements
 - Related to Data Practices, the Agency has designated a Responsible Authority, Data Practices Compliance Officer, and Division designees. The Data Practices Manual details all required compliance elements and outlines processes for agency staff to follow. Applicable staff are provided annual training on the requirements and procedures
 - Agency has designated personnel responsible for compliance with SEC and IRS rules and regulations, including disclosures to investors and potential investors in the Agency's debt securities; and has practices and procedures to comply with applicable provisions
 - The annual financial audit scope includes an assessment of the Agency's compliance with major federal program requirements (i.e., the Single Audit)
- **Continuity of Operations Plan (COOP):** The Agency maintains Disaster Recovery Plan which includes a COOP component.
 - The Disaster Recovery Plan and COOP is reviewed, updated and tested annually
 - The Agency has contracted for an alternative "hot" site processing center. The readiness and functionality of this site is included in the scope of the annual disaster recovery.

MINNESOTA HOUSING FINANCE AGENCY
400 Wabasha Street North, Suite #400
Saint Paul, Minnesota 55102

RESOLUTION NO. MHFA 20-039
Superseding Resolution No. MHFA 12-062

RESOLUTION REVISING AND RESTATING THE ROLE OF THE
FINANCE AND AUDIT COMMITTEE

WHEREAS, the members of the Minnesota Housing Finance Agency (collectively known as the “Board”) previously established a Finance and Audit Committee (“Committee”) through the adoption of Resolution No. 12-062.

WHEREAS, the Board has determined a need to update the resolution governing that Committee to better reflect the activities and function of the Committee.

NOW THEREFORE BE IT RESOLVED:

THAT, Resolution No. 12-062 is hereby superseded by this Resolution, which updates and restates the activities and function of the Committee;

THAT, the Committee shall perform the activities designated herein:

1. Committee Members. The Board shall have a Committee consisting of all members of the Board. The Board Chair shall preside at all Committee meetings. In the Board Chair’s absence, the Vice Chair shall preside. A majority of the members (excluding vacancies) shall constitute a quorum for the purpose of conducting the Committee's business and exercising its powers and for all other purposes. When a quorum is in attendance, action may be taken by the Committee upon a vote of a majority of the members present.
2. Committee Purpose. The purpose of the Committee is to receive and review, as necessary, certain financial information of the Minnesota Housing Finance Agency (“Agency”) and, when necessary, recommend action by the members of the Board as a whole. The Committee is responsible for overseeing the Agency’s accounting and financial reporting processes, the audit of the Agency’s annual financial statements, and the overall approach to risk management and internal controls. Some of the Committee's responsibilities may be delegated in writing to Agency staff, as appropriate. The Committee shall meet as needed to address matters. The Committee shall have access to financial expertise, whether in the form of Agency staff or outside financial advisors or auditors. It may ask others to attend its meetings and provide pertinent information as necessary.

3. Committee Responsibilities The Committee shall perform the following duties unless they are performed directly by the Board:
- a) Recommend to the Board the selection and replacement of any financial advisor, investment banker and publicly registered public accounting firm (independent auditor) engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Board.
 - b) As necessary, meet with the financial advisor, investment bankers, independent auditor and other Agency staff, review Agency financial reports, evaluate or receive evaluations of the performance of the financial advisor, the investment bankers, or the independent financial auditor, and receive reports on the sale and issuance of bonds.
 - c) Oversight of agency risk and internal controls, including consultation with senior management and the Chief Risk Officer
 - d) Review, at least annually, with the independent auditor and Agency staff:
 1. The independent auditor's plan for the financial audit, and scope thereof
 2. The independent auditor's report on the Agency's annual financial statements and related footnotes.
 3. The independent auditor's report on the Agency's Federal Program single audit.
 4. The independent auditor's required communications, including reporting on significant accounting areas and estimates.
 5. The independent auditor's report on internal controls and governmental audit standards including, as necessary, any assessment or report related to the Agency's computerized information system controls and security.
 6. Any other matters the independent auditor chooses to bring to the attention of the Committee
 - e) Review, at least annually, with Agency staff:
 1. The Agency's Risk Management and Internal Control Framework.
 2. Agency compliance with the Risk Management and Internal Control Framework including, but not limited to:
 - Code of conduct, ethics, and conflict of interest.
 - Procedures for the receipt, retention and treatment of reports of wrongdoing or other concerns received, and reporting on investigative activities and resolutions, if any
 - Risk assessments and other internal control reviews, including the Agency Risk Profile, Annual Internal Control System Certification, and program/business process risk assessment projects.
 - f) Make reports and recommendations, as necessary, to the Board.
 - g) Perform such other functions as assigned by the Board.
 - h) The Committee may create subcommittees as necessary.

Adopted this 27th day of August, 2020


Chairman